



# Economic Indicators

Prepared by the Department of Finance • July 2019

*The purpose of this report is to keep policy makers apprised of changes in  
the national and local economies that  
the Montgomery County Department of Finance  
believes may impact current and/or future revenues and expenditures.*

*This report is also available through the Internet  
on the Montgomery County Web Page:  
<http://www.montgomerycountymd.gov>*

*For questions regarding this report, please contact:*

*David Platt  
Chief Economist  
Montgomery County Department of Finance  
101 Monroe Street, 15<sup>th</sup> Floor  
Rockville, Maryland 20850*

*Phone: (240) 777-8866  
Email: [David.Platt@montgomerycountymd.gov](mailto:David.Platt@montgomerycountymd.gov)*

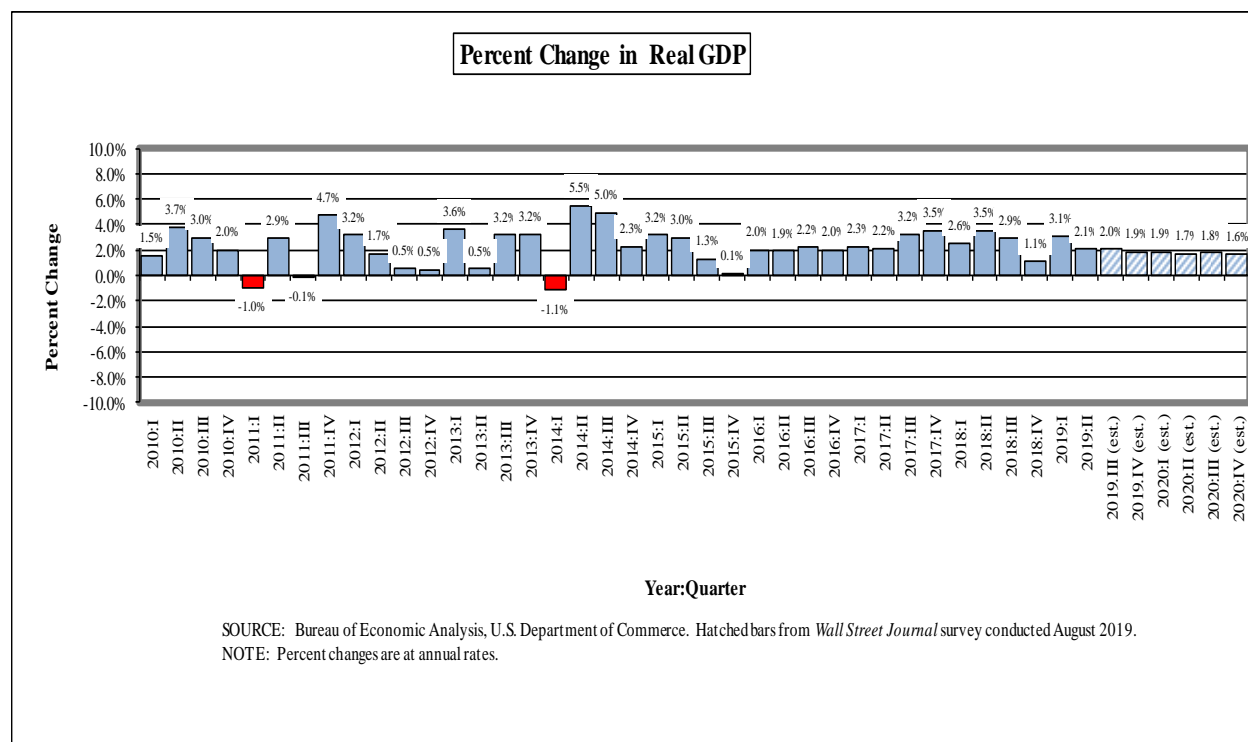
## INTRODUCTION

**This quarterly report provides an analysis of national, state, regional, and Montgomery County economic indicators for the second quarter of calendar year 2019, and completed fiscal year 2019. For this report, data for the second quarter cover the April to June period of the calendar year, and data for the fiscal year cover the July 2018 to June 2019 period. The data presented in this report are not seasonally adjusted to ensure comparability among the national, state, regional and Montgomery County economic indicators. Since the data are not seasonally adjusted, the comparative periods for the quarterly data are the second quarter of this calendar year and the second quarter of calendar year 2018. The only data that are seasonally adjusted are the national real gross domestic product (GDP) and its components.**

## NATIONAL ECONOMY

According to the advance estimate by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, real gross domestic product (GDP) increased at a 2.1 percent seasonally adjusted annual rate during the second quarter of 2019. That increase followed an increase of 3.1 percent during the first quarter. The deceleration in the second quarter was attributed to downturns in inventory investment, exports, and nonresidential fixed investment. These downturns were partially offset by accelerations in consumer and federal government spending. Based on the *Wall Street Journal* (WSJ) August survey of sixty economists, the average of the responses expects economic growth to increase 2.0 percent during the current third quarter, and 1.9 percent during the fourth quarter of this year. Based on the forecast for the next two quarters of 2019, the survey of economists by *The Wall Street Journal* estimates that real GDP will increase 2.2-2.3 percent in 2019. The results of the survey also forecast an increase of 1.8 percent in 2020 and 1.6 percent in 2021. Following its June 2019 meeting, the Federal Open Market Committee (FOMC, Committee) of the Board of Governors of the Federal Reserve System released its latest economic projections from 2019 to 2021. Real GDP is expected to increase 2.1 percent in 2019, 2.0 percent in 2020, and 1.8 percent in 2021.

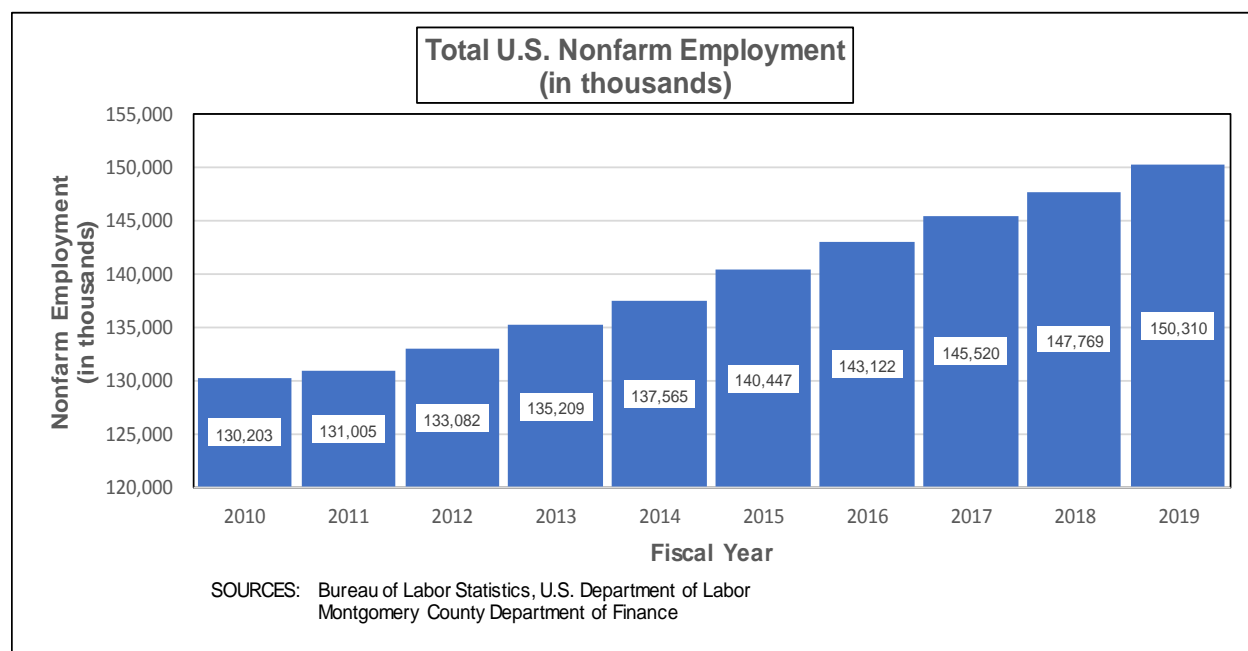
Data released by BEA for the second quarter showed that the increase in real GDP was largely attributed to an increase in personal consumption expenditures (↑4.3% - compared to an increase of only 1.1% during the first quarter). Purchases of nondurable goods increased 6.0 percent and purchases of durable goods were up 12.9 percent. Exports were down 5.2 percent and real non-residential fixed investment decreased 0.6 percent which followed a 4.4 percent increase during the first quarter. Federal spending was up 7.9 percent and state and local government spending combined was up 3.2 percent. However, residential real estate decreased during the second quarter with residential fixed investment decreasing 1.5 percent which followed a decrease of 1.0 percent in the first quarter and a decrease of 4.7 percent during the fourth quarter of 2018.



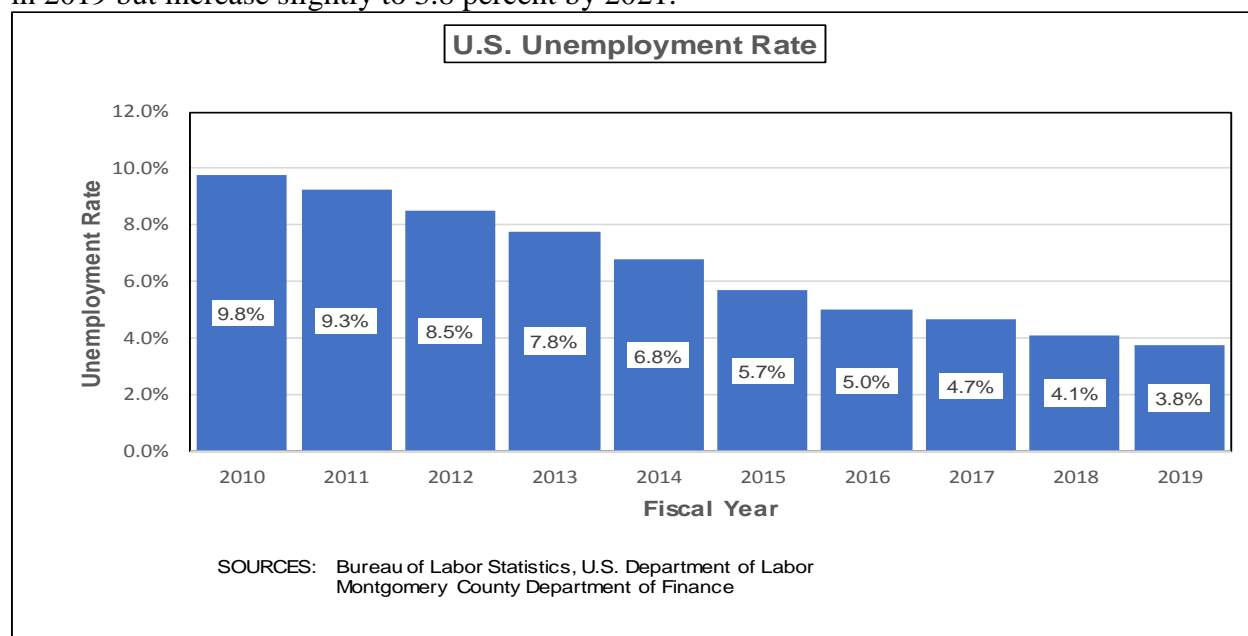
Real final sales of domestic product (real GDP less the change in private inventories) increased 5.4 percent in the second quarter compared to an increase of 3.7 percent during the first quarter. Real final sales are a good measure of future production. If the growth rate in real final sales exceeds the growth rate for GDP over an extended period of time, it indicates a continued expansion of the national economy. For the second quarter, the percent increase in real final sales (5.4%) was above the percent increase in real GDP (2.1%) which suggests continued growth in real GDP through the remainder of 2019.

Sales of existing homes decreased 2.4 percent during the second quarter compared to the second quarter of 2018. Median home prices for existing homes increased 4.3 percent year-over-year during the second quarter of 2019 compared to a 4.7 percent increase during the same period in 2018. The inventory level increased 1.3 percent during the second quarter compared to the same quarter in 2018. That increase is the fourth consecutive quarterly decrease in inventory levels. However, the National Association of Realtors (NAR) forecast the sales of existing homes to decrease 0.2 percent in 2019 but increase 4.5 percent 2020. The Mortgage Bankers Association (MBA), on the other hand, forecast that sales of existing homes will increase 0.6 percent and 1.5 percent in 2019 and 2020, respectively.

Monthly national employment, as measured by the survey of establishments (Current Employment Statistics), averaged 151.6 million (not seasonally adjusted) during the second quarter of this year – an increase of nearly 2.4 million or 1.6 percent from the second quarter of 2017. Employment reached over 150.3 million in fiscal year 2019 – an increase of over 2.5 million or 1.7 percent from fiscal year 2018.



The unemployment rate during the second quarter stood at 3.5 percent (not seasonally adjusted) and was an improvement from the 3.8 percent in the second quarter of 2018. For fiscal year 2019, the unemployment rate declined 0.3 percentage points from 4.1 percent in fiscal year 2018 to 3.8 percent in fiscal year 2019. The July *WSJ* survey expects the jobless rate to be at 3.7 percent by December 2019 but increase to 3.9 percent by December 2020 and 4.0 percent by December 2021. The economic projections by the FOMC in June suggest that the unemployment rate will be at 3.6 in 2019 but increase slightly to 3.8 percent by 2021.



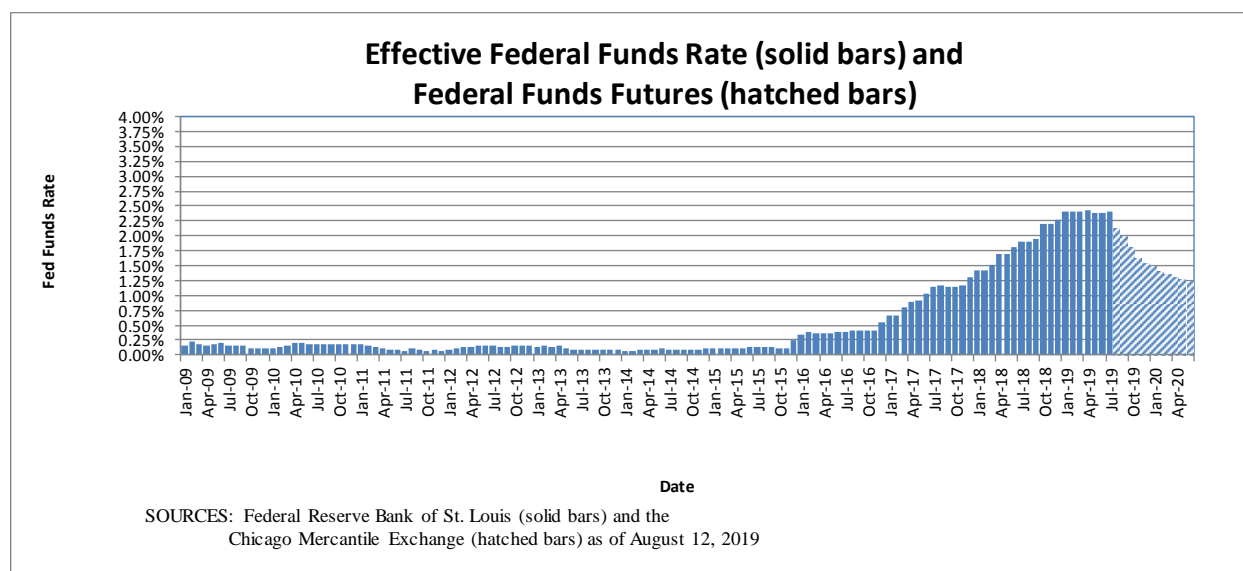
Inflation, as measured by the personal consumption expenditure (PCE) index, the preferred measure of inflation used by the FOMC, is expected to increase from 1.8 percent in 2019 to 1.9

percent in 2020. The July *WSJ* survey suggests that inflation, as measured by the consumer price index (CPI), will decrease slightly from 2.03 percent in December 2019 to 1.99 percent by December 2020.

Subsequent to the July 30 - 31 meeting of the FOMC, they stated that “information received since the FOMC (Committee) meeting in June indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although growth in household spending has picked up from earlier this year, growth of business fixed investment has been soft. On a 12-month basis, both overall inflation and inflation for items other than food and energy are running below 2 percent. Market-based indicators measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little-changed.” Based on the review of the outlook for the economic activity and the labor market, the Committee voted to lower the target range for the federal funds to 2.00-2.25 percent.

Following its June meeting, the FOMC released its latest forecast of rate increases - the “dot plot”. The median of responses indicated lowering the target federal funds rate from 2.4 percent in 2019 to 2.1 percent in 2020, but increasing the target range to 2.4 percent in 2021 and 2.5 percent thereafter.

After the July 30-31 meeting of the FOMC, the Chicago Mercantile Exchange’s implied probability data, the next rate decrease would occur in September followed by another decrease in December. The August *WSJ* survey projects on average that the federal funds rate will be 1.99 December 2019 and 1.85 percent by December 2020.

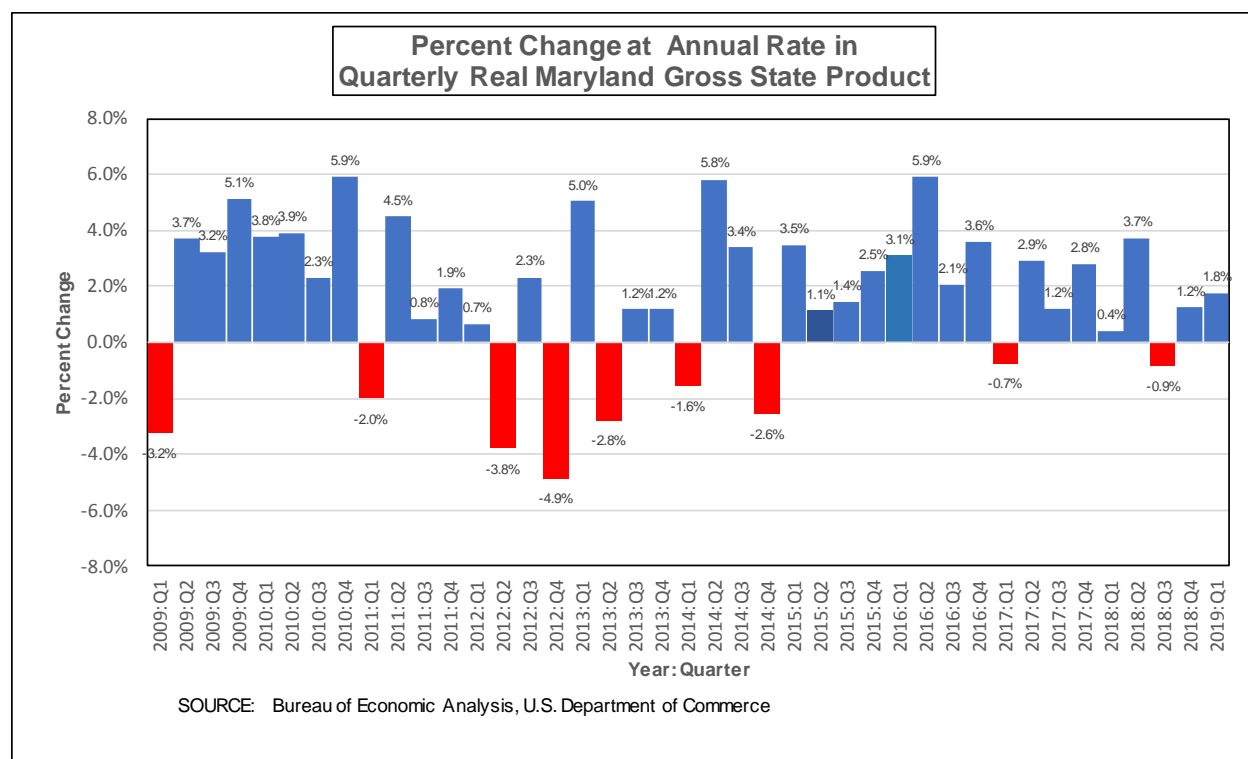


After experiencing strong performance during the first quarter of 2019 that followed a correction during the fourth quarter of 2018, the returns in the stock market decelerated during the second quarter. The Dow-Jones Industrial Average (DJIA) was up a modest 2.60 percent in the second quarter compared to an increase of 11.2 percent in the first quarter; the Standard & Poor’s 500 (S&P 500) increased 3.8 percent compared to an increase of 13.1 percent increase in the first

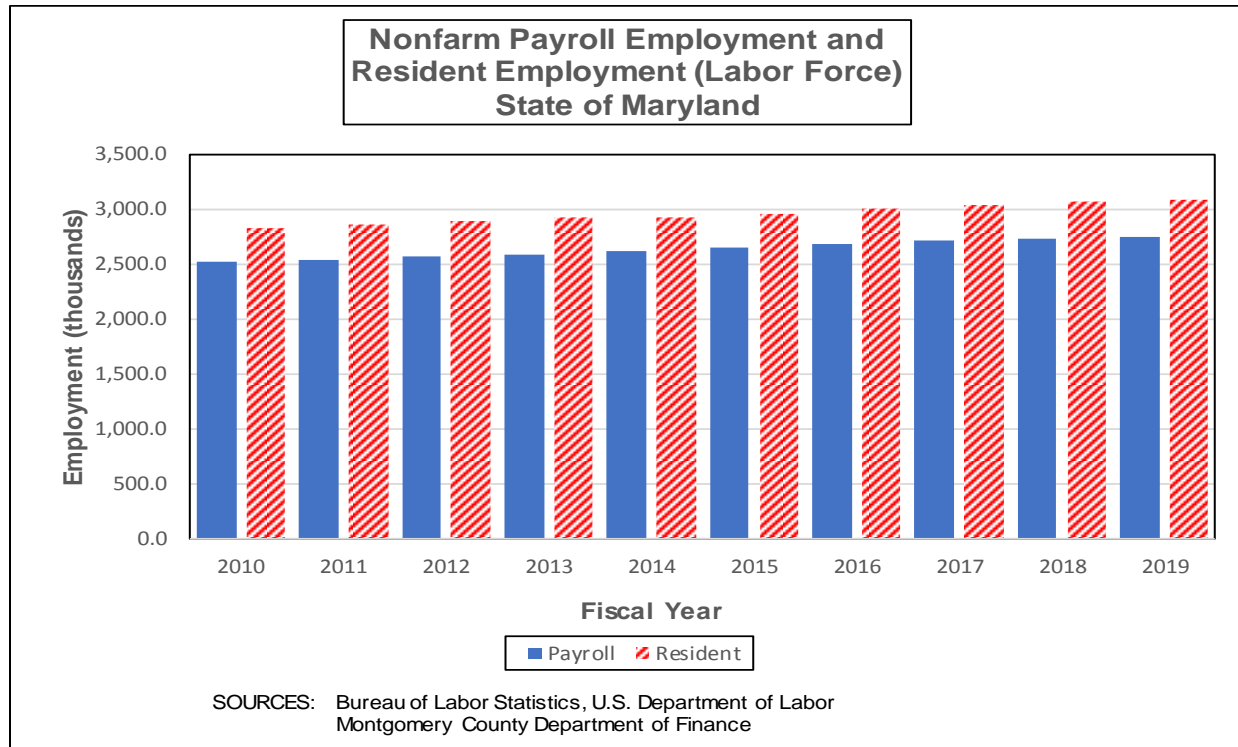
quarter; the NASDAQ also continued to increase in the second quarter with an increase of 3.6 percent compared to an increase of 16.5 percent during the first quarter; and the Russell 2000 increased a modest 1.7 percent in the second quarter that followed an increase of 14.2 percent in the first quarter. Overall, all four indices increased during the first half of 2019. Since the end of the second quarter, all four indices experienced modest increases in July.

### STATE AND REGIONAL ECONOMY

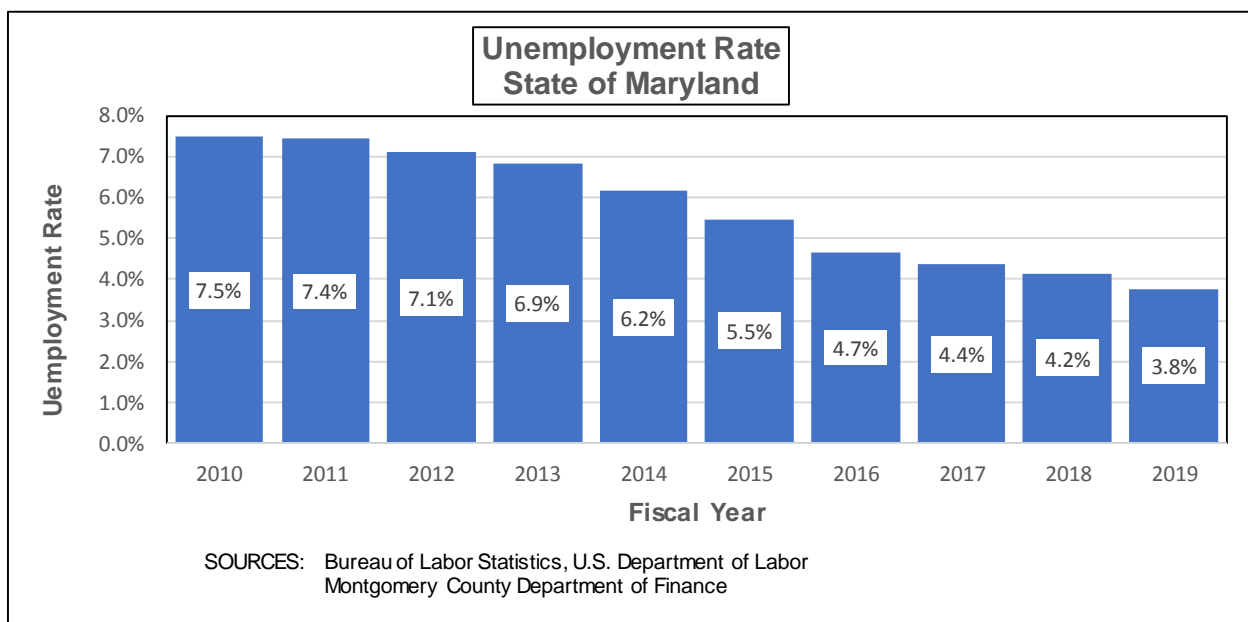
According to the latest data from BEA, real gross domestic product, or gross state product, for Maryland increased 1.8 percent during the first quarter of this year compared to an increase of 1.2 percent during the fourth quarter of last year and an increase of 0.4 percent during the first quarter of 2018. The increase was attributed to a 12.9 percent increase in retail trade, a 4.8 percent increase in the information sector, an 8.5 percent increase in the finance and insurance industry, and a 6.6 percent increase in health care and social assistance.



According to payroll employment data from the Bureau of Labor Statistics (BLS), U.S. Department of Labor and based on the survey of establishments, monthly payroll employment in the State of Maryland averaged 2.775 million during the second quarter of 2019 – an increase of 0.5 percent from the second quarter of 2018. In fiscal year 2019, payroll employment in Maryland reached nearly 2.752 million - an increase of 0.6 percent from fiscal year 2018.

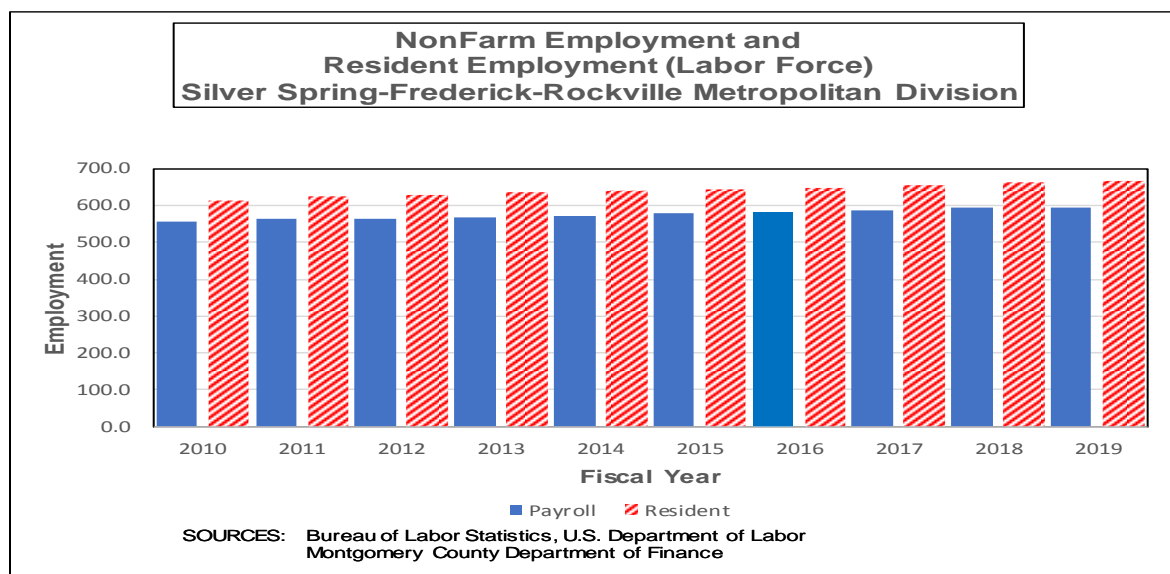


According to the labor force data, the State's resident employment increased 1.2 percent from 3.075 million during the second quarter of 2018 to 3.112 million in the second quarter of this year. The State's unemployment rate decreased from 3.9 percent in the second quarter of 2018 to 3.6 percent in the second quarter of this year. On a fiscal year basis, employment increased 0.7 percent and the unemployment rate declined from 4.2 percent in FY2018 to 3.8 percent in FY2019.

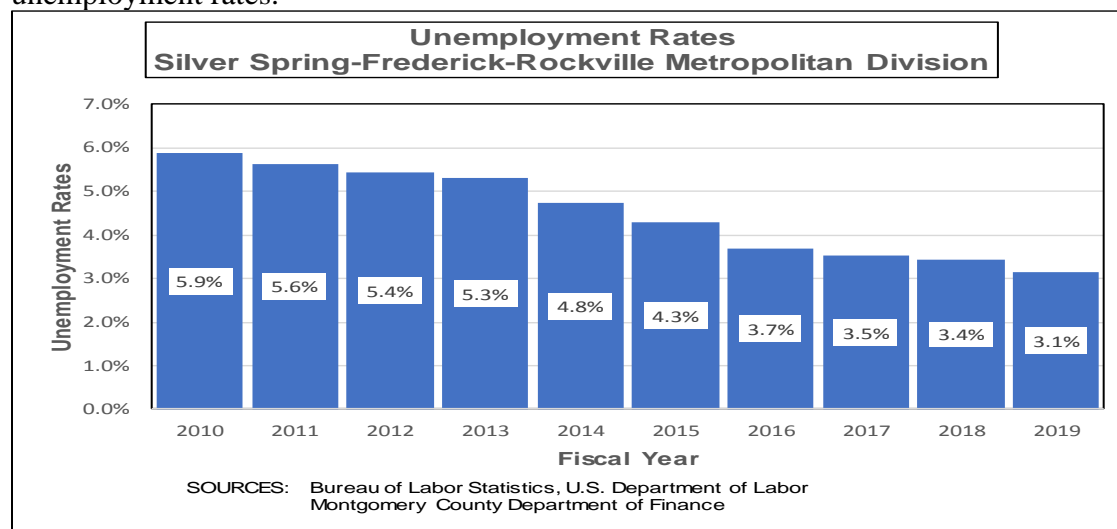




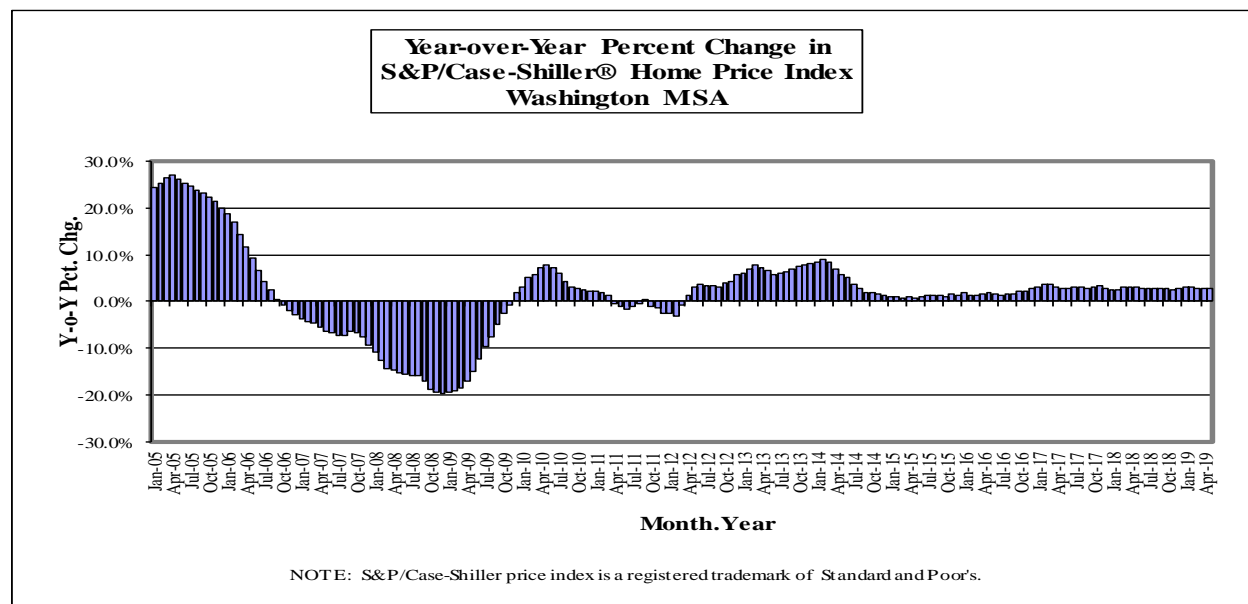
Monthly payroll employment for the Silver Spring-Frederick-Rockville (SSFR) metropolitan division averaged 600,900 during the second quarter and was slightly above the average employment level in the second quarter of 2018 ( $\uparrow 0.2\%$ ). However, that rate of growth was below the second quarter growth rate for the State ( $\uparrow 0.5\%$ ). On a fiscal year basis, payroll employment increased 0.3 percent over FY2018 to 596,400. Resident employment, as measured by the household survey, averaged over 668,300 during the second quarter – an increase of 0.8 percent over the second quarter of 2018. On a fiscal year basis, resident employment was over 665,300 in FY2019 – an increase of 0.5 percent.



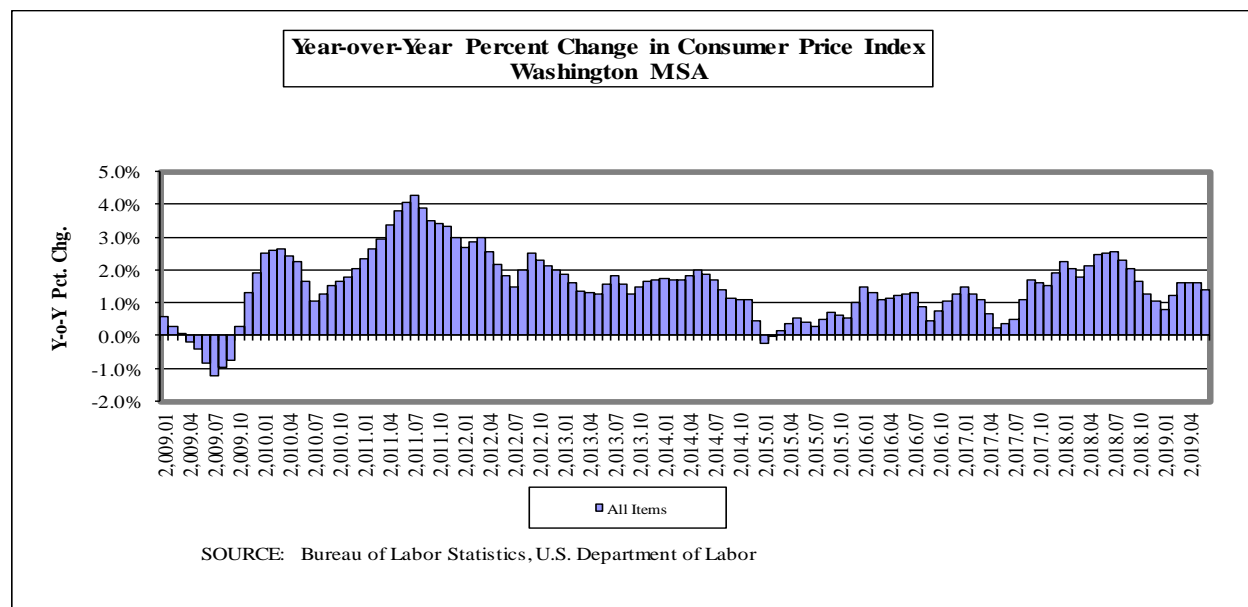
The unemployment rate for the division is either the lowest or one of the lowest among the 34 national metropolitan divisions and the monthly average was 3.0 percent during the second quarter of 2019 – slightly below the rate during the second quarter of 2018 (3.3%). For fiscal year 2019, the unemployment rate was 3.1 percent compared to 3.4 percent in fiscal year 2018. Both the unemployment rates for the second quarter and the fiscal year were below the State's unemployment rates.



The resale housing market across the region experienced growth in prices, on a year-over-year basis, between May 2018 and May of this calendar year. Based on the S&P/Case-Shiller® Home Price Index for the Washington region, prices in May increased 2.9 percent over the twelve-month period.

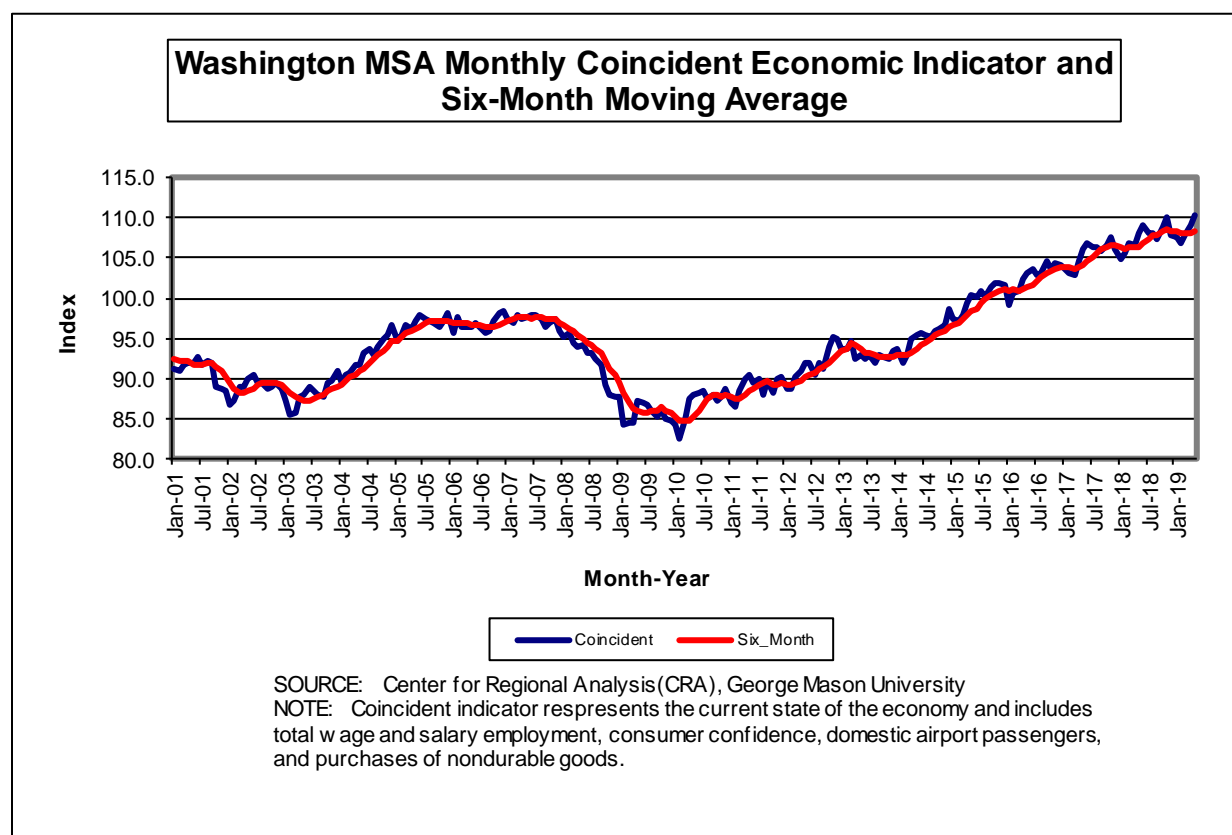


As measured by the Consumer Price Index for All Urban Consumers (CPI-U), inflation in the Washington Metropolitan Statistical Area (MSA) increased an estimated 1.4 percent on a year-over-year basis in June of this year over June 2018. On a fiscal year basis, the CPI-U increased 1.6 in FY2019. Consumer prices excluding food and energy purchases (Core CPI) were up 1.3 percent in the area (on the same year-over-year basis) and up 1.7 percent for the fiscal year.

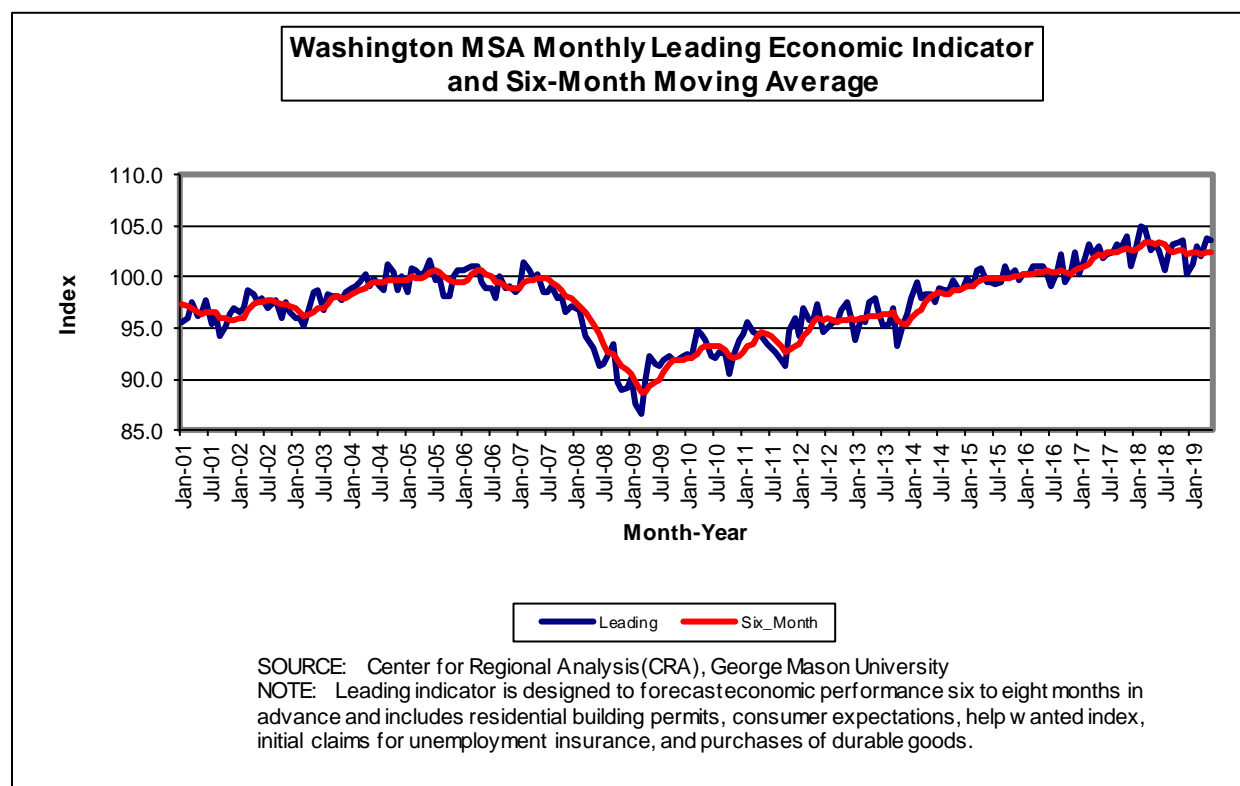


According to the Stephen S. Fuller Institute (Institute) in its July report, “the Washington region’s Coincident and Leading Indices were both positive in May building on gains in April. The Coincident Index registered strong gain in May, its 62<sup>nd</sup> consecutive monthly over-the-year increase, and the Leading Index was up slightly in April extending its positive trend to a second month in contrast with its negative trend dating bank to July 2018. As in April, all of the Coincident Index’s four components and three of the Leading Index’s components contributed to this overall positive performance. Still, the Leading Index’s weak but positive performance in May continues to leave open the question regarding the economy’s future performance.”

The Washington Coincident Index, which represents the current state of the metropolitan area economy, increased 1.23 percent from April to May and all four components of the index increased on a month-over-year basis. On the month-over-year basis, May’s Coincident Index increased 2.21 percent from May 2018. Total wage and salary employment, domestic airport passenger volume, purchases of nondurable goods, and consumer confidence all increased on a month-over-year basis.



According to the Institute, “the Washington Leading Index, which is designed to forecast the performance of the metropolitan area economy six to eight months in advance, increased by 0.25 percent in May on a monthly over-the-year basis registering its second consecutive gain and only the third increase since June 2018.” Three of the Leading Index’s four components contributed to the increase: consumer expectations, total residential building permits, and durable goods retail sales.

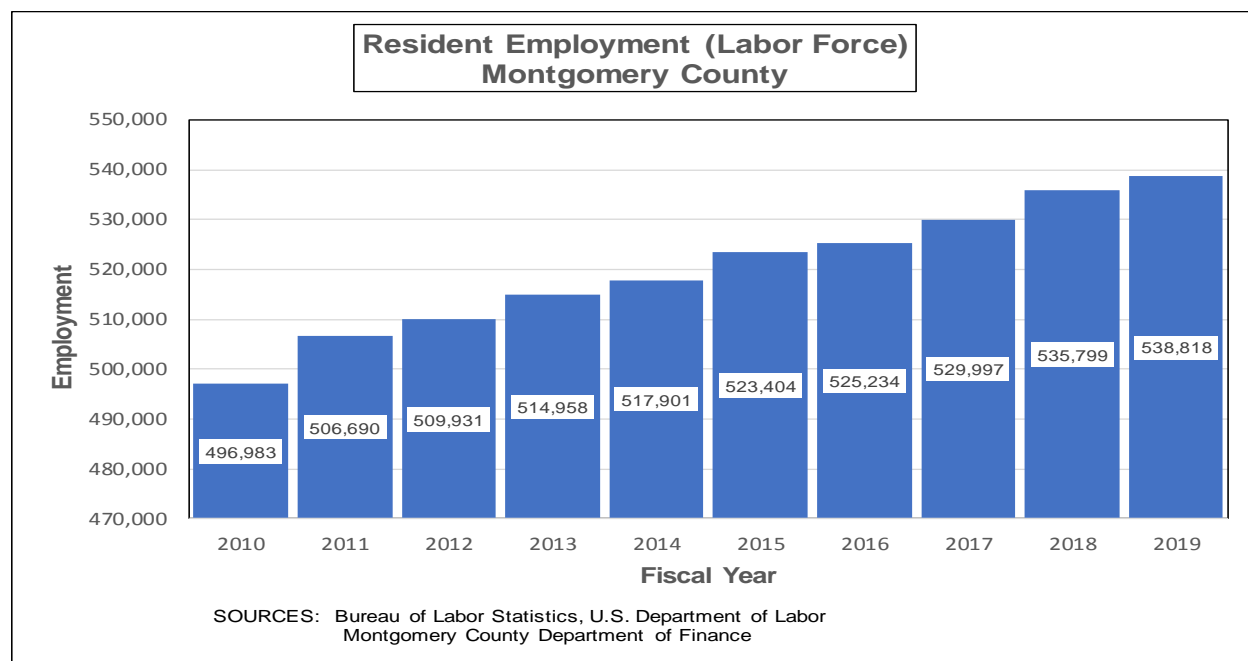


## MONTGOMERY COUNTY ECONOMIC INDICATORS

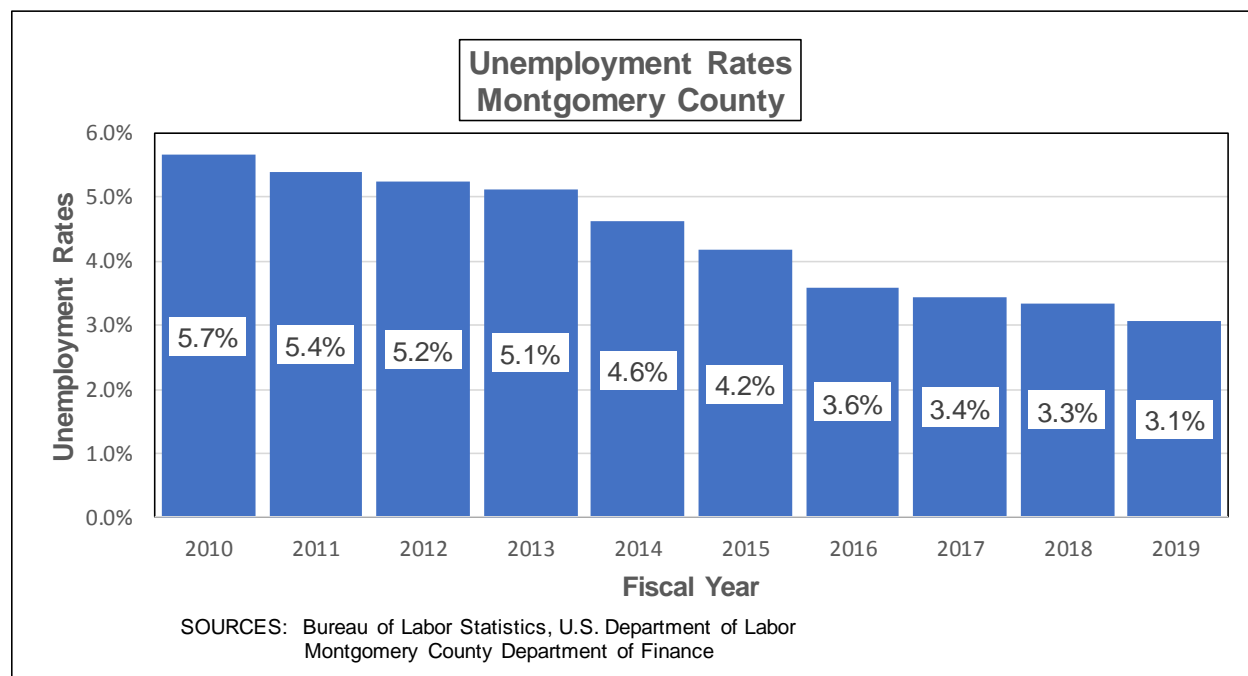
Montgomery County's economy experienced a mixed economic performance during fiscal year 2019. The reasons for a mixed performance include an increase in resident employment, a decrease in the unemployment rate, a decrease in existing home sales, and an increase in median prices for an existing home. Residential construction experienced a decrease in single-family homes but an increase in multi-family units. Construction in the number of non-residential projects decreased but the value of added non-residential projects increased.

### *Employment Situation*

Based on data from the Maryland Department of Labor, Licensing and Regulation (DLLR), the Bureau of Labor Statistics, U.S. Department of Labor, the County's resident employment for the second quarter increased by nearly 4,500 from the second quarter of 2018 (↑0.8%). On a fiscal year basis, resident employment was 539,000 in fiscal year 2019 compared to 536,000 during the previous fiscal year – an increase of slightly more than 3,000 or 0.6 percent.

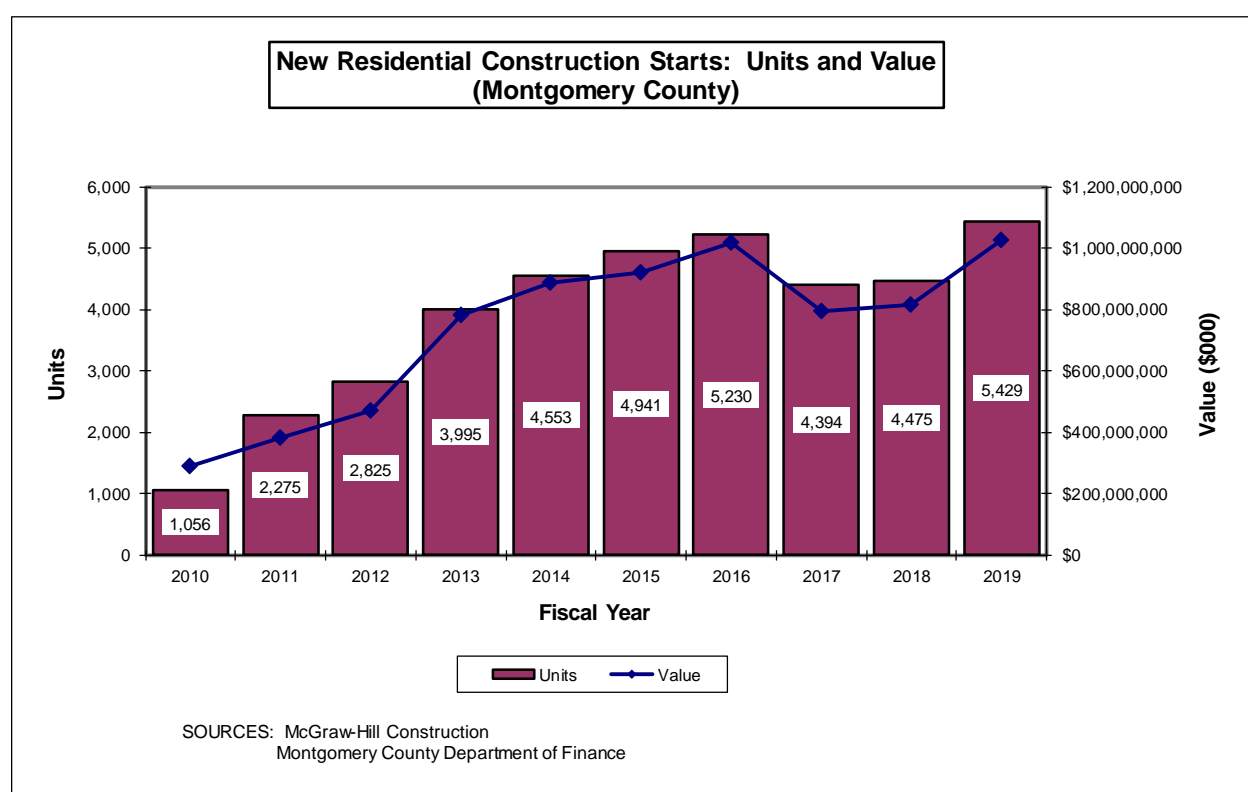


The County's average monthly unemployment rate during the second quarter was 3.0 percent and below the rate during the second quarter of 2018 (3.2%). In fiscal year 2019, the unemployment rate was 3.1 percent compared to fiscal year 2018 (3.3%). Throughout fiscal year 2019, the County's unemployment rate remained one of the lowest in the State.



## Construction Activity

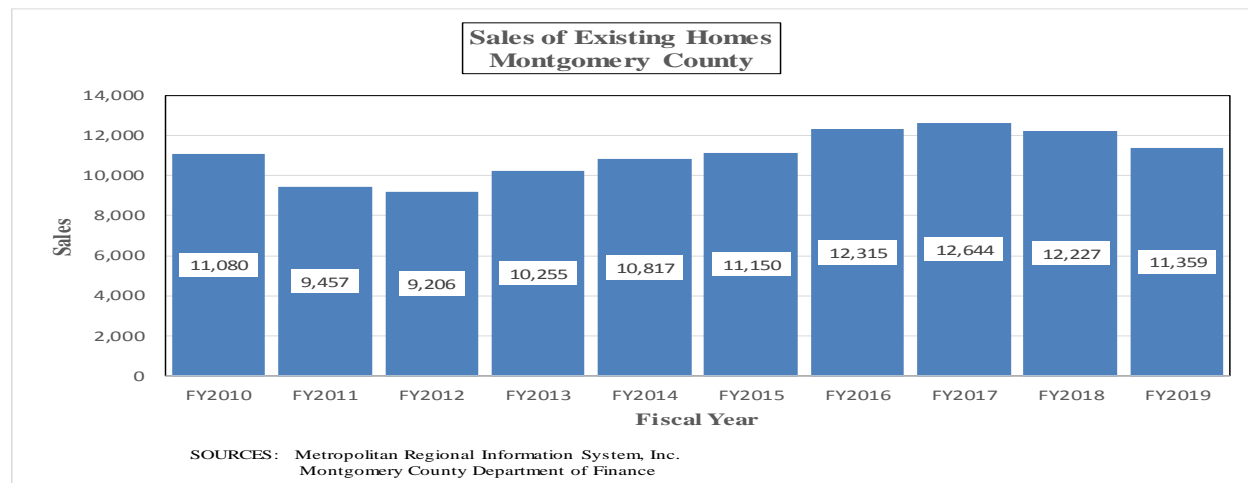
Construction of single-family residential units decreased during the second quarter of 2019 compared to the second quarter of 2018. Construction of single-family homes declined 5.0 percent but construction of multi-family units increased 15.9 percent. Overall with the increase in multi-family units that offset the decrease in single-family units, total construction of residential units increased 13.6 percent in the second quarter over the second quarter of 2018. Residential construction starts added a total value of \$326.3 million during the second quarter compared to \$358.1 million during the second quarter of last year ( $\downarrow 8.9\%$ ). On a fiscal year basis, the number of new residential construction starts increased 21.3 percent in fiscal year 2019 largely attributed to the increase in multi-family units ( $\uparrow 77.5\%$ ) and the total value added was \$1,025 million which was 25.5 percent above FY2018 and largely attributed to the total value added by multi-family homes ( $\uparrow 49.6\%$ ).



During the second quarter of 2019, the number of non-residential starts (projects) increased nearly 15.4 percent from the second quarter of 2018. The total value increased from \$343.6 million to \$446.4 million ( $\uparrow 29.9\%$ ). On a fiscal year basis, the number of non-residential projects decreased 4.2 percent but the total added value increased from \$1,137.9 million to \$1,535.7 million from fiscal year 2018 to fiscal year 2019 – an increase of 35.0 percent.

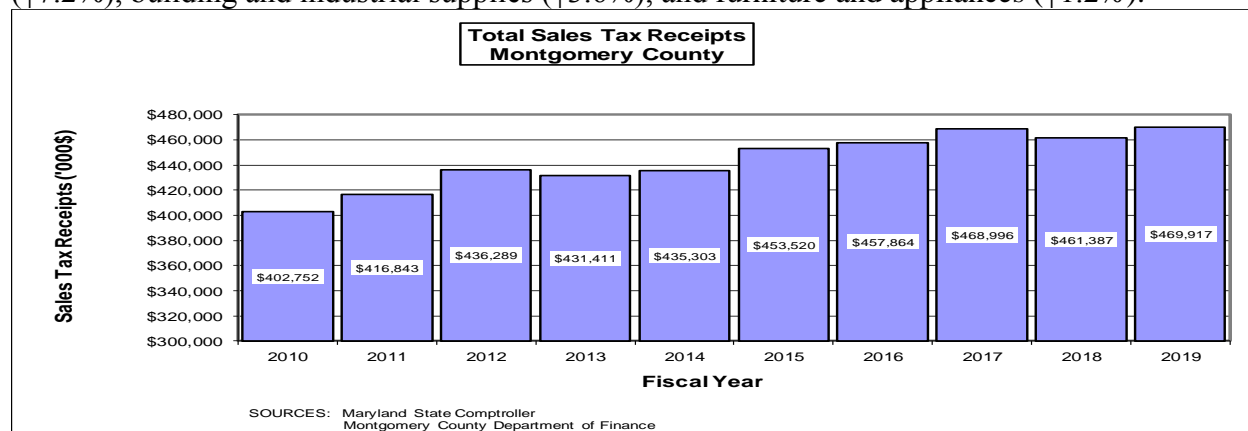
## Residential Real Estate

During the second quarter of this calendar year, existing home sales decreased 3.6 percent on a year-over-year basis following a decrease of 0.4 percent during the second quarter of 2018. However, median sales prices for existing homes increased a modest 1.6 percent during the second quarter 2018 following an increase of 5.8 percent during the second quarter of 2018. On a fiscal year basis, sales of existing homes decreased 7.1 percent but median prices increased 2.9 percent.



## Retail Sales

Using sales tax receipts as a measure of retail sales activity in the County, retail sales increased 1.8 percent in fiscal year 2019. In FY2019, purchases of nondurable goods, which include food and beverage, apparel, general merchandise, and utilities and transportation, increased 0.4 percent during this period and sales of durable goods were up 3.6 percent. The increase in nondurable goods purchases was largely attributed to the increase in purchases of apparel items (↑8.8%), while the increase in purchases of durable goods was largely attributed to an increase in automotive (↑7.2%), building and industrial supplies (↑3.6%), and furniture and appliances (↑1.2%).



## CONCLUSION

The major economic indicators confirm that the County's economy experienced mixed economic performance during fiscal year 2019. Employment measured by the survey of households increased 0.6 percent, and the unemployment rate at 3.1 percent was a decrease from fiscal year 2018. Residential construction increased for multi-family homes but decreased for single-family homes. Sales of existing homes declined 7.1 percent but median prices were up 2.9 percent during the fiscal year compared to last fiscal year.